

Mr. David Culpepper, Senior Reimbursement Analyst
Paragon Health Network, Inc.
One Ravinia Drive, Suite 1500
Atlanta, Georgia 30346

Re: AC# 3-STG-J5 - Grancare South Carolina, Inc. d/b/a St. George Health Care
Center, Inc.

Dear Mr. Culpepper:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1994 through September 30, 1995. That report was used to set the rate covering the contract periods beginning October 1, 1996.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Edgar A. Vaughn, Jr., CPA
State Auditor

EAVjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

**GRANCARE SOUTH CAROLINA, INC.
d/b/a ST. GEORGE HEALTH CARE CENTER, INC.**

ST. GEORGE, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1996
AC# 3-STG-J5**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 27, 1998

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Grancare South Carolina, Inc. d/b/a St. George Health Care Center, Inc., for the contract periods beginning October 1, 1996 and for the twelve month cost report period ended September 30, 1995, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Grancare South Carolina, Inc. d/b/a St. George Health Care Center, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Grancare South Carolina, Inc. d/b/a St. George Health Care Center, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
February 27, 1998

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the South Carolina Department of Health and Human Services and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Edgar A. Vaughn, Jr., CPA
State Auditor

ST. GEORGE HEALTH CARE CENTER, INC.

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1996
AC# 3-STG-J5

	<u>10/01/96- 03/31/97</u>	<u>04/01/97- 09/30/97</u>
Interim reimbursement rate (1)	\$78.55	\$78.55
Adjusted reimbursement rate	<u>77.53</u>	<u>77.53</u>
Decrease in reimbursement rate	\$ <u>1.02</u>	\$ <u>1.02</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 1997

ST. GEORGE HEALTH CARE CENTER, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1996 Through March 31, 1997
AC# 3-STG-J5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$3.00	\$33.58	\$42.83	\$33.58
Dietary	<u>.54</u>	<u>8.92</u>	<u>9.46</u>	<u>8.92</u>
Subtotal	<u>\$3.54</u>	42.50	52.29	42.50
Laundry/Housekeeping/Maint.	\$.22	7.10	7.32	7.10
Administration & Med. Rec.	<u>-</u>	<u>9.74</u>	<u>8.60</u>	<u>8.60</u>
Subtotal	<u>\$.22</u>	59.34	<u>\$68.21</u>	58.20
<u>Costs Not Subject to Standards:</u>				
Utilities		2.25		2.25
Special Services		-		-
Medical Supplies & Oxy.		3.69		3.69
Taxes and Insurance		1.60		1.60
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$66.88</u>		65.74
Inflation Factor (4.90%)				3.22
Cost of Capital				6.57
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				.22
Cost Incentive - For Gen. Serv. & Dietary				3.54
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(2.01)
Minimum Wage Add On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$77.53</u>

ST. GEORGE HEALTH CARE CENTER, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period April 1, 1997 Through September 30, 1997
AC# 3-STG-J5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$3.21	\$33.58	\$45.82	\$33.58
Dietary	<u>.54</u>	<u>8.92</u>	<u>9.46</u>	<u>8.92</u>
Subtotal	\$ <u>3.75</u>	42.50	55.28	42.50
Laundry/Housekeeping/Maint.	\$.22	7.10	7.32	7.10
Administration & Med. Rec.	<u>-</u>	<u>9.74</u>	<u>8.60</u>	<u>8.60</u>
Subtotal	\$ <u>.22</u>	59.34	\$ <u>71.20</u>	58.20
<u>Costs Not Subject to Standards:</u>				
Utilities		2.25		2.25
Special Services		-		-
Medical Supplies & Oxy.		3.69		3.69
Taxes and Insurance		1.60		1.60
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$66.88</u>		65.74
Inflation Factor (4.90%)				3.22
Cost of Capital				6.57
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				.22
Cost Incentive - For Gen. Serv. & Dietary				3.75
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(2.22)
Minimum Wage Add On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$77.53</u>

ST. GEORGE HEALTH CARE CENTER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1995
AC# 3-STG-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,079,975	\$ 6,980 (7) 528 (7)	\$ 2,405 (2) 830 (3) 14,615 (8) 1,105 (8) 8,633 (9) 3,504 (11)	\$1,056,391
Dietary	282,349	1,090 (7) 1,475 (10)	1,926 (4) 2,282 (8) 105 (11)	280,601
Laundry	42,997	160 (7)	334 (8)	42,823
Housekeeping	122,749	705 (7)	1,476 (8)	121,978
Maintenance	57,436	189 (7) 1,308 (13)	397 (8)	58,536
Administration & Medical Records	307,483	144 (2) 875 (7) 39 (7) 8,633 (9) 1,200 (10)	1,834 (8) 83 (8) 10,077 (13)	306,380
Utilities	66,870	5,245 (13)	1,475 (10)	70,640
Special Services	-	-	-	-
Medical Supplies & Oxygen	127,936	-	6,727 (6) 5,219 (11)	115,990

ST. GEORGE HEALTH CARE CENTER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1995
AC# 3-STG-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Taxes & Insurance	43,897	10,156 (13)	3,809 (5)	50,244
Legal Fees	-	-	-	-
Cost of Capital	210,489	-	115 (1) 1,200 (10) 1,810 (12) 769 (14)	206,595
Subtotal	2,342,181	38,727	70,730	2,310,178
Ancillary	40,323	-	-	40,323
Non-Allowable	379,770	115 (1) 2,261 (2) 1,926 (4) 6,727 (6) 22,126 (8) 8,828 (11) 1,810 (12) 769 (14)	6,632 (13)	417,700
Total Operating Expenses	<u>\$2,762,274</u>	<u>\$83,289</u>	<u>\$77,362</u>	<u>\$2,768,201</u>
TOTAL PATIENT DAYS	<u>31,459</u>	<u>-</u>	<u>-</u>	<u>31,459</u>
TOTAL BEDS	<u>88</u>			

ST. GEORGE HEALTH CARE CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-STG-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 12,509	
	Other Equity	31,290	
	Nonallowable	115	
	Accumulated Depreciation		\$ 43,799
	Cost of Capital		115
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Medical Records	144	
	Nonallowable	2,261	
	Nursing		2,405
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
3	Retained Earnings	830	
	Nursing		830
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
4	Nonallowable	1,926	
	Dietary		1,926
	To disallow expense due to lack of adequate documentation HIM-15-1, Section 2304		
5	Accrued Property Taxes	3,497	
	Retained Earnings	312	
	Taxes and Insurance		3,809
	To adjust property taxes and related accrual to allowable HIM-15-1, Sections 2302.1 and 2304		
6	Nonallowable	6,727	
	Medical Supplies		6,727
	To disallow expense due to lack of adequate documentation HIM-15-1, Section 2304		

ST. GEORGE HEALTH CARE CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-STG-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nursing	6,980	
	Restorative	528	
	Dietary	1,090	
	Laundry	160	
	Housekeeping	705	
	Maintenance	189	
	Administration	875	
	Medical Records	39	
	Accrued PTO		10,566
	To adjust PTO accrual to allowable HIM-15-1, Sections 2302.1 and 2304		
8	Nonallowable	22,126	
	Nursing		14,615
	Restorative		1,105
	Dietary		2,282
	Laundry		334
	Housekeeping		1,476
	Maintenance		397
	Administration		1,834
	Medical Records		83
	To adjust workers' compensation and group insurance expense to allowable HIM-15-1, Section 2304		
9	Medical Records	8,633	
	Nursing		8,633
	To reclassify medical record salaries and related benefits to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
10	Dietary	1,475	
	Administration	1,200	
	Utilities		1,475
	Cost of Capital		1,200
	To reclassify income offsets to the proper cost centers HIM-15-1, Sections 2102.3 and 2328		

ST. GEORGE HEALTH CARE CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-STG-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Nonallowable	8,828	
	Restorative		3,504
	Dietary		105
	Medical Supplies		5,219
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
12	Nonallowable	1,810	
	Cost of Capital		1,810
	To reverse DH&HS adjustment to record prior owner amortization expense State Plan, Attachment 4.19D		
13	Maintenance	1,308	
	Utilities	5,245	
	Taxes and Insurance	10,156	
	Administration		10,077
	Nonallowable		6,632
	To adjust home office cost allocation to allowable HIM-15-1, Sections 2304 and 2150		
14	Nonallowable	769	
	Cost of Capital		769
	To adjust cost of capital to allowable State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$131,727</u>	<u>\$131,727</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

ST. GEORGE HEALTH CARE CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1995
AC# 3-STG-J5

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.0472</u>
Deemed Asset Value (Per Bed)	31,973
Number of Beds	<u>88</u>
Deemed Asset Value	2,813,624
Improvements Since 1981	164,084
Accumulated Depreciation at 9/30/95	<u>(683,800)</u>
Deemed Depreciated Value	2,293,908
Market Rate of Return	<u>0.070</u>
Total Annual Return	160,574
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	160,574
Depreciation Expense	47,221
Amortization Expense	-
Capital Related Income Offsets	(1,200)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	206,595
Total Patient Days (Minimum 97% Occupancy)	<u>31,459</u>
Cost of Capital Per Diem	\$ <u><u>6.57</u></u>

ST. GEORGE HEALTH CARE CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1995
AC# 3-STG-J5

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 6.57
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>10.56</u>
Reimbursable Cost of Capital Per Diem	\$ 6.57
Cost of Capital Per Diem	<u>6.57</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>